

Operator: Greetings, and welcome to the Sun Hydraulics Corporation Fourth Quarter and Full Year 2017 Financial Results conference call. At this time, all participants are in a listen-only mode. A question-and-answer session will follow the formal presentation. If anyone should require Operator assistance during the conference, please press star, zero on your telephone keypad. As a reminder, this conference is being recorded.

I would now like to turn the conference over to your host today, Ms. Karen Howard, Investor Relations for Sun Hydraulics. Please proceed.

Karen Howard: Thank you, Latonya, and good morning everyone. We certainly appreciate your time today for our fourth quarter 2017 financial results conference call. On the line with me are Wolfgang Dangel, our President and Chief Executive Officer, and Tricia Fulton, our Chief Financial Officer. Wolfgang and Tricia will be reviewing the results that were published in the press release distributed after yesterday's market close. If you do not have that release, it's available on our website at www.sunhydraulics.com. You will also find slides there that will accompany our discussions today.

If you look through the slide deck on Slide 2, you'll find our safe harbor statement. As you may be aware, we will make some forward-looking statements during this presentation and also during the Q&A. These statements apply to future events that are subject to risks and uncertainties, as well as other factors that could cause actual results to differ materially from where we are today. These risks and uncertainties, and other factors, are provided in the earnings release as well as other documents filed by the Company with the Securities and Exchange Commission. These documents can be found at our website or at www.sec.gov.

I also want to point out that during today's call, we will discuss some non-GAAP financial measures, which we believe are useful in evaluating our performance. You should not consider the presentation of this additional information in isolation, or as a substitute for results prepared in accordance with GAAP. We have provided reconciliations of comparable GAAP and non-GAAP measures in the tables that accompany today's earnings release, as well as in the slides.

Wolfgang will get started with some highlights for the quarter. Tricia will go through the details of financial results, and then we'll turn it back to Wolfgang for his perspective on our outlook before we open up the line for questions-and-answers. With that, it's now my pleasure to introduce Wolfgang.

Wolfgang H. Dangel: Thank you, Karen. Good morning everyone. Please turn to Slide 3. We are very proud of our team's performance in 2017. In addition to reporting solid financial results, even more importantly, we made significant progress on our Vision 2025. I'll get more into that in a moment.

Let me start with highlighting the financial results for the year. Sales increased 74% to \$343 million, a record setting level. Enovation Controls contributed nearly one third of those sales, or USD\$109 million. On a pro forma basis, Enovation Controls realized 33% sales growth over 2016. The historic Sun business also grew very well, by 21%.

We reported EPS of \$1.17. After excluding one-time type items that Tricia will review with you, our non-GAAP EPS was \$1.60, up 72% over 2016. Similarly, our Adjusted EBITDA grew by 82% to USD\$87 million, that represents a 25.4% Adjusted EBITDA margin. Since we reported a couple of very significant items after the end of the year, I want to point them out here.

In late January, early February, we accessed the equity capital markets and successfully raised about \$240 million. We subsequently were able to sign a definitive agreement to acquire the Faster Group, one of the M&A initiatives that were in process. We announced this on February 19. We will use the proceeds of the equity offering together with existing cash, and drawing on our revolving credit facility, to fund the acquisition when we close, which is expected in the second quarter. I will re-summarize the acquisition in a few moments.

We are introducing our guidance for 2018, recognizing that we will update it to include Faster once we close on that transaction. We expect revenue for our current SNHY business to be between \$370 million and \$385 million, and adjusted operating margin between 22.7% and 24% for 2018.

Please turn to Slide 4 and I will summarize the key investments we have made in 2017 in accordance with our Vision 2025 strategic plan. As we have been reporting throughout the year, we undertook a very complex carve-out of the Enovation Controls business from its prior operation. This involved the take down and set-up of numerous production lines and inventory movement between Tulsa and San Antonio. This was ongoing throughout the year and successfully completed in the fourth quarter. It was quite a phenomenal feat by itself, but it was further complicated by significant customer demand, resulting in 33% revenue growth. So, we are quite pleased with this accomplishment.

Additionally, we have already begun work on the synergies identified at the time of the acquisition, which we already started realizing. This includes cross-segment team interaction to drive cross-selling and other activities.

Next, the contribution to Hydraulics revenue by newly added field application specialists accelerated faster than we expected. This was further enhanced by the connections we are making in the field between our global suppliers and our global channel partners, facilitating problem-solving and creating further opportunities for all stakeholders.

Regarding new product development, in a very short order, we developed our first product line that was a joint project between our Hydraulics and Electronics engineering teams. Announced in October, it is the new line of competitively priced, highly performance electro-hydraulics. Recall that one of the strategic benefits from the Enovation acquisition was to leverage their electronics knowledge. We have many more such projects in our pipeline.

The last key 2017 initiative that I will highlight for you is the beginning of the construction of our facility in South Korea. Once complete, it will provide for expansion of our existing activities in the region including manufacturing, engineering, sales, and warehousing. This supports our “in the region, for the region” initiative, as our growth in this region has been accelerating. In 2017, our Hydraulics segment realized 40% growth in the Asia Pacific region.

All of these activities are in pursuit of our Vision 2025 goals, which include establishing critical mass at \$1 billion in revenue while maintaining superior profitability and financial strength.

Please turn to Slide 5, and I will recap the planned acquisition of Faster Group that we announced last week. This will be a very strategic and transformational acquisition for SNHY, moving us further along our Vision 2025. Headquartered in Milan, Italy, Faster is the leading global manufacturer of quick release hydraulic coupling solutions. Its product offering is very complementary to our existing hydraulic cartridge valves and manifolds, expanding our addressable market. It brings some very important end markets to us, particularly the global agricultural market, which is entering a high-growth cycle. Similar to Sun, Faster Group is known for its high-quality, high-performance products

and excellent customer service. The Faster brand is number one in Europe and number two globally. These differentiating factors are driving Faster to gain market share, growing ahead of macroeconomic trends. The enterprise value is 430 million euros or approximately \$531 million. This represents approximately a 12.7x estimated 2018 EBITDA multiple, which is comparable to the multiple at which we valued Enovation Controls back in 2016. Taking into consideration our estimated annual synergies of \$7.5 million, the valuation represents a 10.8x multiple on estimated 2018 EBITDA.

Importantly, the acquisition will be immediately accretive to EPS and EBITDA margin. We estimate pro forma 2018 GAAP EPS accretion of \$0.15 to \$0.25. Excluding all estimated amortization and transaction expenses, we estimate EPS accretion of \$0.55 to \$0.65, which is a slightly different methodology than we reported last week. Faster's EBITDA margin is approximately 27% to 28%. Tricia will touch on the funding of the acquisition.

With that overview, I will now turn the call over to Tricia to review the financial results for the year in a bit more detail.

Tricia L. Fulton: Thank you Wolfgang and good morning everyone. As you may recall, we released preliminary 2017 numbers in conjunction with our equity offering process about a month ago. As I progress through these slides, you will see that our actual results are in alignment with them. I'm starting on Slide 7 with the review of our fourth quarter consolidated results.

Fourth quarter sales were \$84 million, up 69% compared with last year's quarter. This includes \$24 million for the Enovation Controls business, indicating that the organic business grew 31%. Most of our products did not have any price increases in 2016 or 2017, so pricing had an immaterial impact on the comparability. Foreign currency translation had a favorable \$1.1 million impact for the quarter.

I will now touch on sales by region, which are designated here in the sales bar charts. We inserted a table in the back of the press release as well as the supplemental slides summarizing this information. As we've previously noted, all geographic markets realized considerable year-over-year fourth quarter growth. In the Americas, sales were up over fourth quarter of 2016 to \$46.7 million, driven by the Enovation Controls business as well as organic growth. The Enovation Controls business is heavily weighted to the U.S., driving our sales to the America's market up to 56% of the consolidated total. EMEA realized 41% growth to \$18.8 million, and the Asia-Pacific region was up 65% to \$18.6 million. We've made investments in sales and marketing, including additional sales application specialists in the field, which we believe are generating sales to complement the market expansion.

Regarding profitability, our consolidated Adjusted EBITDA was up to \$17.2 million, representing a 55% increase over last year's fourth quarter. The increase was due to the increase in sales. However, we did experience some unanticipated costs which pressured the gross margin, operating margin, and EBITDA margin. I will address those costs when we review each segment.

Turning to the bottom line, adjusted earnings per share were \$0.27, up 49% over last year's fourth quarter of \$0.18.

I want to mention a few items that impacted our consolidated results, and that we added back for purposes of reporting Adjusted EBITDA and adjusted EPS shown here. Please refer to the tables in the back of the press release or slides for reconciliations of GAAP to non-GAAP numbers.

As we previously indicated, we combined our HCT operation into Enovation Controls. In conjunction with that, we incurred \$1.5 million of restructuring charges of which approximately \$400,000 is included in cost of sales and \$1 million is separately reported on our income statement. We also incurred \$2.9 million for one-time operational items. I will provide more detail on those when I discuss each segment.

Included in Selling, Engineering and Administrative, or SEA, expenses, we had \$1 million of acquisition and financing-related expenses. And finally, as separately shown on our income statement, we increased the contingent consideration associated with the Enovation Controls acquisition by \$600,000 to the full amount under the acquisition agreement, reflecting the business' continued strong performance.

Net interest expense of \$1.1 million increased from \$300,000 in the fourth quarter of 2016 with the increase primarily for debt to fund the acquisition of Enovation Controls.

Finally, as a result of the Tax Cuts and Jobs Act, we recorded a \$500,000 one-time tax charge in the fourth quarter of 2017. This included a transition tax charge for deemed repatriation of non-U.S. earnings, partially offset by a tax benefit derived from revaluation of our net deferred tax liability at the new lower Federal tax rates.

Please turn to Slide 8 for a review of our Hydraulics segment fourth quarter operating results. Sales grew 31% to \$59 million with particular strength in the APAC region, continuing the trend realized earlier in the year. We saw a 53% year-over-year growth for the quarter in the APAC region, 28% growth in EMEA, and 21% growth in the Americas region.

Gross profit increased by 27% to \$21 million on the higher sales. Gross margin declined by 120 basis point to 35.9%. We summarized the costs that pressured margin into two categories. The first category includes one-time operational costs, amounting to \$1.2 million, or 2.1% of Hydraulics segment sales for the quarter. These include several items as follows:

- First, is an inventory standard cost adjustment that resulted from a reduction in inventory value due to productivity improvements.
- Next are costs that were associated with recovery from downtime and expedited past due orders after Hurricane Irma hit Florida in September. We incurred incremental temporary labor, freight and material outsourcing to help us get back on schedule.

The second category of costs that pressured margins includes \$1.5 million of unanticipated costs, or 2.5% of Hydraulics segment sales, for the quarter. This includes several items, some of which will continue into 2018, described as follows:

- Given strong demand for our products, we realized incremental inbound and outbound freight costs, and material outsourcing to expand capacity, with the goal of maintaining our best-in-industry lead time.
- We also realized an unfavorable product mix this quarter.
- Finally, unfavorable foreign currency adjustments derived from a strong British Pound and Euro relative to the U.S. Dollar drove up our fourth quarter costs.

Operating income increased 28% to \$11 million, or 19.2% operating margin, compared with 19.7% last year. Similar to the lower gross margin, operating margin was pressured, but partially offset by leveraging on our SEA expenses.

Please turn to Slide 9 for a review of our Electronics segment fourth quarter operating results. As a reminder, the 2016 Electronics segment numbers include our small HCT business, and about one month of Enovation Controls since the December 5, 2016 acquisition. I also want to mention that seasonally, the fourth quarter is the weakest for the Electronics segment, impacted by extended shutdowns over the December holidays at many of our OEM customers.

Enovation Controls contributed \$24 million to the segment's \$25 million fourth quarter 2017 sales. On a pro forma basis, Enovation Controls realized 18% growth over its full 2016 fourth quarter. Similar to the strong pro forma growth realized all year, we attribute this to our proactive sales initiatives, as well as new products and overall increasing market demand in the power controls and recreational vehicle end-markets.

The segment generated 30.5% gross margin and a negative 2.7% operating margin in the quarter. Similar to the Hydraulics segment, we summarized the costs that pressured margins into two categories. The first category includes one-time operational costs amounting to \$1.7 million, or 6.7% of Electronic segment sales for the quarter. These costs, including scrap and missing inventory, are attributable to our carve-out process, which was completed in the fourth quarter.

The second category of costs that pressured margins includes \$1.4 million of unanticipated costs, or 5.6% of Electronics segment sales for the quarter. This includes several items, some of which will continue into 2018 described as follows:

- First is an increase in the run rate of our normal scrap
- Next is warranty costs associated with some new product introductions
- Third, we had some year-end medical plan reserve adjustments
- Fourth, we're using some subcontract labor to keep up with the significant customer demand
- And finally, we had an unfavorable product mix in the quarter

Please turn to Slide 10 for a review of our full year consolidated results. Sales of \$343 million were up 74% over 2016. This includes \$109 million for the Enovation Controls business, indicating that the organic business grew approximately 21%. Foreign currency translation had an unfavorable \$600,000 impact in 2017 compared with 2016.

Regarding profitability, our consolidated Adjusted EBITDA was up 82% over 2016 to \$87 million, while the Adjusted EBITDA margin was up to 25.4% from 24.4% last year. Turning to the bottom line, adjusted earnings per share were \$1.60, up from \$0.93 last year.

As I noted for the quarter, I want to mention some items that impacted our consolidated 2017 results, and that we added back for purposes of reporting Adjusted EBITDA and adjusted EPS shown here. Once again, please refer to the tables in the back of the press release or slides for reconciliations of the GAAP to non-GAAP numbers.

In addition to the items I noted earlier that impacted the fourth quarter, we also had items reported in prior quarters. These were \$1.8 million for amortization of inventory valuation from the first quarter, as well as the full year effect, or \$9.5 million for the change in the fair value of contingent consideration. Both of these items pertain to the Enovation Controls acquisition.

Net interest expense of \$3.8 million contrasts with \$800,000 of net interest income in 2016, with the change due to the incremental debt to fund the Enovation Controls acquisition.

Please turn to Slide 11 for a full year review of the Hydraulics segment. Sales grew 22% to \$231 million; the APAC, EMEA and Americas regions were 40%, 14% and 18% respectively.

Gross profit increased 31% to \$92 million, and gross margin expanded to 39.8%, despite the items previously described, which unfavorably impacted the segment in the fourth quarter. Operating profit increased 40% to \$55 million, and operating margin expanded to 23.8%, also despite those items previously described. For the year, the Hydraulics segment realized about 39% operating leverage on the incremental sales.

Please turn to Slide 12 for a full year review of the Electronics segment. Enovation Controls contributed \$109 million of the segment's \$112 million of sales for the year. On a pro forma basis, Enovation Controls realized 33% growth over 2016. The segment generated 41.5% gross margin and 16% operating margin in 2017. I want to point out again, these results were achieved while completing a very complex carve-out of the operations we acquired from those with which they were previously combined. We believe this is a testament to the culture and potential of this business.

Please turn to Slide 13 for review of our cash flow and capital structure. This view is as of year-end, before recent equity offerings from which we raised about \$240 million to fund our strategic plans, including the Faster acquisition.

For 2017, we generated \$49.4 million of cash from operating activities, compared with \$38.5 million in 2016. The increase was due to higher net income, partially offset by an increase in working capital. As noted in prior quarters, we needed additional working capital during 2017, especially inventory, to support the sales growth as well as the Enovation Controls carve-out. To ensure we did not interrupt our ability to meet customer demand, we carried extra inventory as production lines were being shut down and then set up in their new location. This is an area of focus for 2018, as we believe we have an opportunity to improve our working capital utilization.

We finished the year with \$64 million of cash and no short term investments.

Total debt was \$116 million at December 30, 2017, down from \$140 million at December 31, 2016. We repaid \$24 million of debt during the year, and had \$184 million of available capacity under our revolving credit facility at December 30, 2017. Subsequent to year-end, we used proceeds from our equity offering to repay our outstanding debt in full. We also expressed our intent to exercise the \$100 million accordion feature on our revolving credit facility to partially fund our acquisition of Faster Group, which is expected to close in the second quarter.

Net debt was \$52 million at year end. Pro forma for our recent equity offering and our upcoming acquisition of Faster Group, net debt is approximately \$350 million, and trailing twelve month Adjusted EBITDA is about \$123 million, representing a 2.8 times multiple. Given the strong cash flows of our combined organization, we believe this is a very manageable level and we'll aggressively begin repaying it during 2018.

Wolfgang, I would like to turn it back to you for your perspective on outlook before we open lines for Q&A.

Wolfgang H. Dangel: Thanks, Tricia. Please turn to Slide 15. Leading indicators that are important to SNHY continue to signal ongoing growth. For example, U.S. industrial production is expected to continue accelerating growth until at least the middle of 2018, and then continue growing for the remainder of the year, but at a slower rate. U.S. total manufacturing production and U.S. mining

production are currently growing at accelerating rates. We noted that the U.S. Purchasing Managers Index fell in January, supporting the theory of slowing growth in the latter half of 2018. All major global economies are in an accelerating growth phase, except Mexico. This includes China, Western and Eastern Europe, Canada, India and Brazil. Economies in those regions are also expected to continue growing throughout 2018, but at a slower rate than 2017. Mexico's growth is expected to accelerate in 2018.

As our cartridge valves are important to the construction machinery sector, we look to the status of the U.S. construction market. Currently, expansion is expected in most of the sector through 2018, except for multi-unit housing starts. However, multi-unit housing is expected to start to recover from the recession it has been in.

Year-over-year growth is anticipated across most of the manufacturing sector in 2018. U.S. defense, capital goods and North American heavy duty truck are expected to grow at the fastest rates. However, U.S. industrial machinery new orders are expected to contract in 2018.

Finally, the U.S. electronics business indicators point to growth in 2018 with ongoing volatility.

As you have seen, this economic activity is benefiting us, given our current concentrations in material handling and general industrial applications. Important to note, we have stated in accordance with our Vision 2025 plan, we expect to outpace macroeconomic growth. This will be driven by the investments we are making to expand our coverage in the field, increase and broaden relationships with OEMs, penetrate regions where we have "white space" and continue to introduce new and innovative products and solutions.

Please turn to Slide 16 for additional thoughts regarding our outlook. We generally have visibility for about one quarter or so. Accordingly, it is difficult for us to predict an entire year. However, we developed our guidance conservatively based on current trends and economic indicators. We do want to remind you of few things.

First, we are continuing to invest in our organic growth. Therefore, some of the margin generated from incremental sales will be reinvested in our business. This includes additional field applications specialists and other sales and marketing initiatives, as well as aggressive new product development projects.

Also, I remind you that our business is seasonal. The fourth quarter is usually the weakest for both our Hydraulics and Electronics segments.

Finally, when we announce that we have closed on the acquisition of the Faster Group, we will update our guidance at that time to include our expected contribution of that business for the remainder of the year. As we communicated last week, on a pro forma basis, we expect revenue growth of 16.0% to 16.5% in 2018 over 2017, and we expect 2018 pro forma Adjusted EBITDA margin that approximates 2017, between 27% and 28%.

Please proceed to Slide 17 where we summarized our guidance for 2018 compared with our actual 2017 results. Again, this is only the base SNHY business as it currently stands. We will update it to include Faster Group when we close on that acquisition.

We are expecting revenue growth of 8% to 12% driven by growth in both of our segments at a similar rate. We are expecting an adjusted operating margin of 22.7% to 24%, following our current reporting

methodology. Net interest expense is estimated at \$100,000 to \$200,000, which reflect the effects of our recent equity offering, but does not reflect the impact of the debt we will incur with the acquisition of Faster Group. Given the benefits of the tax reform act, we estimate our expected tax rate to be between 24.5% and 26.5%. Our capital expenditures are currently expected to be between \$15 million and \$20 million, driven by the completion of our new facility in South Korea, as well as ongoing investments to improve productivity. Depreciation will be between \$11.5 million and \$12.5 million, and amortization will be between \$8 million and \$9 million. Again, I re-emphasize that these numbers will change once we complete the Faster Group acquisition.

With that, let's open up the lines for questions-and-answers.

Operator: Thank You. At this time, we will conduct a question-and-answer session. If you would like to ask a question, please press star, one on your telephone keypad. A confirmation tone will indicate your line is in the question queue. You may press star, two if you would like to remove your question from the queue. For participants using speaker equipment, it may be necessary to pick up your handset before pressing the star key. We will take web questions after the live Q&A session; please type your question on the web platform now. One moment while we poll for our questions.

Our first question comes from Mig Dobre with Robert W. Baird. Please proceed with your question.

Mig Dobre: Good morning, guys.

Wolfgang H. Dangel: Good morning, Mig.

Mig Dobre: First, a sort of earnings adjustment question. You have got two sets of adjustments, and I think I understand one set and am not so sure about the other. When you are looking at Hydraulics for instance, and the \$1.5 million associated with maintaining lead times, I presume that is related to freight, overtime and so on? To me that looks as the cost of doing business given what has been going on, broadly speaking, with capacity and demand and so on for many industrial companies. You have a similar thing going on with Electronics for \$1.4 million. What is your view as to why these costs need to be adjusted from earnings, particularly since you are mentioning that some of these costs will occur to some extent in 2018 as well?

Tricia L. Fulton: Certain costs we do believe are one-time costs, and that is why we have pulled them out and indicated them as such; we do not expect those to be ongoing. Additionally, we do have some costs resident in Q4 that we believe will lead into the Q1 2018 numbers, but those are factored into our annual guidance range and were not added back as adjustments. Those are things, specifically in the Hydraulics segment, like the additional freight costs, materials outsourcing, and some additional temp labor costs, likely to continue as we are expediting products in and out, all of those points to maintaining our best-in-class lead time. But some of the unanticipated items we do not expect to continue into 2018, and expect to be resident only in the Q4 numbers.

On the Electronics side, we are seeing some higher normal scrap rates. A lot of that points to the installation of our new SMT lines which were put in Q4, and those additional costs for scrap did start in Q4 and have continued, but at lower rates as we're going into Q1. That's the new production process that we've introduced. Those were products that we were outsourcing before. So, those should wane as we go forward and get up to speed on that process.

Mig Dobre: Okay. Well, I don't mean to sound picky, but you also mentioned mix and warranty on new products. Again I don't know if those are a meaningful component of that \$1.4 million in Electronics or not, but to me, mix seems like just a natural occurrence.

Tricia L. Fulton: We do have mix in some quarters and in some quarters it's negligible. It seemed to point out a little bit more in the fourth quarter, especially on the Electronics side. And we did have higher than normal warranty costs as well, but I want to emphasize that we have not added those back. We were just trying to use those to explain the differences in the fourth quarter.

Mig Dobre: Okay. Just to be clear, when I'm looking at your guidance for 2018, is your guidance inclusive of any drags of this nature, or does the guidance exclude whatever else might occur going forward?

Tricia L. Fulton: It does specifically include the drag from some of the things I just mentioned in the Hydraulics segment into Q1- the freight, the material outsourcing, and the temp labor. We should see that wane over the year, but the guidance does include that, and it also includes the elevation of normal scrap costs in the Electronics segment.

Mig Dobre: Okay. Two more questions. As we are thinking about gross margins for both segments through the year, and clearly we're going to start a little bit slower because of these drags, can you help us range the first quarter versus the ramp for the other three, or front-half, back-half? Anything that you can help us with.

Tricia L. Fulton: Yes. In the first quarter, we will see some drag on the gross margins related specifically to these items. As we work through the other quarters, we should see improving margins in both of the segments at the gross margin level. Some of that improvement is expected to come from productivity, and some from the additional costs that will go away.

Mig Dobre: Okay. Then lastly, I'm wondering if you can help us think about SG&A? There are a lot of investments here. How do you think about that line item for the full year in 2018 versus 2017? Also, from a price standpoint, you mentioned that you didn't get much price in 2016 or 2017. What are your assumptions for both segments in 2018?

Tricia L. Fulton: I'll let Wolfgang address the pricing issue. With regards to the SG&A, purely on an SG&A costs basis, without any of the additional costs of things like financing and M&A costs because we've pulled those out separately, we should see a slight increase in SG&A. A relatively small increase year-over-year, resulting from things like the addition of more field application specialists and additional marketing incentives globally which would be allocated to SG&A cost.

Wolfgang H. Dangel: On pricing Mig, when we met with the customers and channel partners around the world last year, rolling out the strategic plan and all the initiatives, we committed to not increasing prices for the first half of 2018. However, we are analyzing the overall trend we see in the industry, and obviously some pressure on the commodity side, and believe we could probably see a price increase during the second half of 2018.

Mig Dobre: Okay. Thank you guys.

Wolfgang H. Dangel: Thank you.

Operator: Our next question comes from Jeff Hammond with KeyBanc. Please proceed with your question.

Jeff Hammond: Hey, good morning.

Wolfgang H. Dangel: Good morning Jeff.

Jeff Hammond: Just to go back to the \$2.9 million in unanticipated costs, can you give us a sense of what that number looks like in 1Q, and how long it takes to get that all back to normal in terms of expedited freight, etc.?

Tricia L. Fulton: Those are moving targets right now, so I can't give you a hard number of how much of that to expect in Q1. We have a lot of initiatives underway to mitigate all of those additional costs that we saw in Q4. An example on the scrap in the Electronics segment is they have twice daily walks related to scrap to make sure that we fully understand where those are happening, and why, and what we can do to mitigate them. So, I believe that things like those initiatives will drive down those costs from what we saw in Q4. But, as an ongoing effort, I think it's too difficult to estimate exactly what the impact is going to be to Q1 relative to what we saw in Q4.

Jeff Hammond: Are there some clear costs in that \$2.9 million that go away right away? Like the higher medical, or the warranty?

Tricia L. Fulton: Yes. The only ones we see that are going to be ongoing are in the Hydraulics segment, things related to maintaining our best-in-class lead times of freight, material outsourcing and temp labor portions. The things like you mentioned related to medical reserve, annual inventory count, excess inventory, and sales mix probably go away. As Mig pointed out, we always have some variant of mix that plays a part in each quarter, but it was just notably higher in both segments in December. So things like warranty would also likely go away.

Jeff Hammond: Okay. Then in the Electronics outlook, you cite ongoing volatility. Can you expound on that comment, or "some volatility" I think is how you put it?

Wolfgang H. Dangel: Yes, Jeff. We are essentially looking at two indicators there. As you know, in the Electronics business, over 80% is North American based, so we look at the North American sales of Semicon and in PCBs, so printed circuit boards. And on the PCB side, we are looking at the book-to-bill ratio. Those indicators suggest we are going to see growth in 2018. However, they are volatile because the book-to-bill ratio has been changing here from month to month. That's where the comment about volatility comes in. We also look at sales growth for electronic manufacturing services, and that is holding up very steady and remains strong.

Jeff Hammond: Okay. Then just lastly, you said synergies are running ahead, and I think you described some of the things you're working on for Enovation, but can you talk about what's been the surprise to the upside? Is it better revenue synergies or are you finding more cost synergies? Thanks.

Wolfgang H. Dangel: First of all, it's much more revenue driven. When we announced the acquisition back in 2016 we essentially set a goal for ourselves to reach \$5 million in EBITDA by 2020. We had the first year, 2017, to align things and get the project going, and then ramp up the curve in 2018, 2019, and 2020 respectively. In referring to your comment, I think the collaboration between the teams is probably going better than anticipated. I thought it would have taken a little bit

more time to get aligned. We are seeing lots of joint activities that probably will accelerate the generation of those synergies, but they are 75% revenue driven and 25% cost or expense driven.

Jeff Hammond: Okay. Thanks a lot.

Wolfgang H. Dangel: You're welcome.

Operator: Our next question comes from Brian Drab with William Blair. Please proceed with your question.

Brian Drab: Good morning. Thanks for taking the questions. First of all, I'd like to make sure that I understand, and that everyone is clear, on the accretion from Faster and the way you are communicating it. Could you repeat those accretion numbers, and then, I think you were clear, but does your accretion estimate include an add-back for amortization, or does it not include an add-back for amortization? Then if you could specify whether we are talking about all amortization or just deal related amortization.

Tricia L. Fulton: In the adjusted numbers, we've added back all of the amortization. So, the \$0.55 to \$0.65 range includes all amortization added back, that which was on their books before, and the expected incremental increase.

Brian Drab: I think it's clear. I'm relatively new to the story, but I think one thing that I do understand is that you add back deal related amortization in the calculation of your adjusted operating income, but you do not add back that amortization in the calculation of your adjusted EPS. So, I think what would be most useful is if the number, the accretion figure that is apples-to-apples with the way that you calculate your adjusted EPS. Does that make sense?

Tricia L. Fulton: Yes, it does. Again, these are estimates so we felt it was easier to pull everything out. But when we're reporting once they are part of our business, you're correct.

Brian Drab: Okay. So, the accretion estimate that we would use, with respect to adjusted EPS would be something less than the \$0.55, \$0.60 number that you are mentioning now. Is that right?

Tricia L. Fulton: So, you're saying for the adjusted one. When we report adjusted EPS each quarter, yes, we will do it in the same manner as the way we're currently doing our calculations.

Brian Drab: Okay, so if a consensus estimate today was, I don't know exactly what it is at the moment, but let's say it is \$1.90, you would not add \$0.55 to that to get the adjusted EPS expectation for 2018. You would add back something closer, in my calculation, to \$0.35 to \$0.40.

Tricia L. Fulton: We're, looking at something probably closer to \$0.30 to \$0.35 on that.

Brian Drab: Okay, that's helpful. Then just maybe one other question since I took up quite a bit of time there. Regarding new product introductions, I think there is a double digit number of new product introductions on the Electronics side coming in 2018. Can you talk in a little more detail about the potential impact to revenue from some of those? Do any of them have major potential to move the needle?

Wolfgang H. Dangel: Yes, we have about 10 product introductions, depending how you look at it. In fact, normally, it always takes a little bit of time until we feel a real impact. However, last year, as

you know, and that's why we had 33% growth in that very segment. Some of the introductions really were extremely successful and performed quite nicely. But on an ongoing basis, it's normal that we have about 10 product implementations/introductions in Electronics every single year, so 2018 does not stand out. It's just a continuation of the innovation of the business segment there. So, it's contributing to the growth that we're showing here, but I think we're looking at it more conservatively, in my opinion.

Brian Drab: Okay, thank you very much.

Wolfgang H. Dangel: You're welcome, Brian.

Operator: Our next question comes from Charley Brady with SunTrust Robinson Humphrey. Please proceed with your question.

Charley Brady: Hey, thanks, good morning. I don't want to beat a dead horse here, but on these unanticipated costs, and I understand it's a moving target as production goes forward, but can you help us out, and back out the known costs that aren't going to repeat? You've mentioned warranty likely not going to repeat, the health care stuff, so that we can at least get to a net number that is going to repeat, and we can try and figure out how to allocate that, however we're going to do that?

Tricia L. Fulton: So, the things that won't repeat, we pointed out product mix for both segments, we had some FX material cost that we don't expect to repeat in the Hydraulics segment, medical reserves would not repeat, and additional warranty is likely not to repeat.

Charley Brady: Can you quantify those as a percentage of what was in Q4? Because, I mean, for Electronics, that cost is 560 basis points of margin, it's a pretty big number. I don't have any sense as to how much of that continues or how much of it does not continue.

Tricia L. Fulton: Yes, just a second. Let me just try to get the numbers here. I haven't done the calculation that way.

Charley Brady: Maybe while you're doing that, I'll ask another question, then. Any sense, you're adding these people in the field to generate more sales, sounds like it's working pretty well, and I know it'll be hard to quantify, but any sense as to how much growth they're adding organically to the business by having these people versus not having them previously?

Wolfgang H. Dangel: Yes Charley, normally, we are a little bit more prudent and conservative in that type of approach. So, we would not expect these people to immediately generate revenue because it takes time to get acquainted with the company, with the business and so forth. With those regional application specialists we put into the Americas territories, to North and Latin America, over the last two years, they came up to speed very quickly. Those were very experienced people, either coming out of the industry or coming from OEMs, or were application engineers for a very long time. The majority of the additions we are making this year, and moving forward, are probably outside of the Americas to more in the emerging markets, and those people we need to give a little bit more time, because we bring them in for intensive training, acquaint them here with both segment's product portfolios in the U.S., and then send them back into the designated geographies. So normally, by rule of thumb, we say it takes about three years until somebody breaks even. So, there can be differences, but in general, it takes two full years to bring them onboard, train them, and so forth, and then third year onwards, they contribute and pay for themselves.

Tricia L. Fulton: Charley, to answer your earlier question, we expect 55% to 60% of those costs will not repeat. The remaining costs may be at the same level, but we may have an ability to reduce those through the first quarter as well, and we're still working through those to be able to answer that with regard to how much they could be reduced, or if they'll stay the same.

Charley Brady: So, 55% to 60% of the unanticipated costs incurred in Q4 don't slide into 2018, am I hearing correctly?

Tricia L. Fulton: Correct. Yes.

Charley Brady: Yes, that's very helpful. Appreciate it. Thanks.

Tricia L. Fulton: Okay.

Operator: Our next question comes from Jon Braatz with Kansas City Capital. Please proceed with your question.

Jon Braatz: Good morning everyone. Tricia, just back to that previous question. When you look at the costs that will repeat into the first quarter, is there a possibility that those costs will rise in the first quarter, will worsen a little bit?

Tricia L. Fulton: I would say they would not rise. We have a lot of initiatives underway to address those and fully understand where we could possibly do something different. I would say they wouldn't rise. Hopefully, we will be able to mitigate some of them and they will go down. I just don't have a good estimate for what that looks like yet from where we are. We've only closed January at this point.

Jon Braatz: Right. Okay. Would you anticipate that these costs might bleed into the second quarter and into the third quarter too?

Tricia L. Fulton: It's possible that some of them could bleed into the second quarter. Historically, it's a pretty high seasonal uptick for the second quarter in both of the segments. So, there are possibilities that some of those costs, especially related to maintaining these lead times in the Hydraulics segment, could continue.

Jon Braatz: You're speaking about lead times quite a bit. How are your lead times relative to your competitors at this time?

Wolfgang H. Dangel: It's significantly better, John. Good morning.

Jon Braatz: Good morning, Wolfgang.

Wolfgang H. Dangel: As a matter of fact, I think the gap has widened if we looked at standard lead times across the board amongst the peer group two years ago and compare it to today. So, we are running late probably by about a week. Our standard lead times are four weeks around the world, irrespective of where you order the product from. We commit to bring it to you within four weeks for the entire product portfolio, which is pretty wide on the hydraulic side. Right now, we are about a week late, maybe one and a half weeks, and competition is probably out there, somewhere in the range between 8 and 26 weeks right now.

Jon Braatz: Okay. Is that the...

Tricia L. Fulton: John, to address real quick back to your previous question, any increases that we think, or these costs that we think are going to continue, are built into our estimates for '18.

Jon Braatz: Right, okay. Now, Tricia, your guidance for next year, the adjusted margin of I think it was 23%, 24%, that excludes any one-time costs. As it stands now, when you look at the quarter, are you anticipating any one-time costs in the first quarter?

Tricia L. Fulton: No, not a lot. We may have some acquisition related costs that we pull out of there. We have already accounted for that. It's mostly, the amortization on the acquisition.

Jon Braatz: Okay. Lastly, Wolfgang, Enovation had a wonderful year last year in terms of top line growth, and I don't think anybody expects it to continue to be like that. But, when you look at the growth stepping down a little bit to 12% to 15% area, and I think you talked a little bit about the market conditions, but was there any new product development, or new contract wins that are a little bit of, let's say, a headwind going into 2018 that might account for some of the slowdown in the revenue growth in Enovation?

Wolfgang H. Dangel: No, I can't point to any individual headwind or point out any contract negotiations. Jon, first of all, I still think this is superior growth. I think 13% growth is still superior. It's not 33% like last year, but it's definitely still taking market share. I think it's a tribute to the overall economic environment I think we have reasonably well explained.

Jon Braatz: All right. Thank you, Wolfgang.

Wolfgang H. Dangel: Thank you, John.

Operator: Our next question comes from Blaine Marder with L.H. Capital Markets. Please proceed with your question.

Blaine Marder: Hey guys, Blaine Marder, how are you? Accentuating the positive, the revenue growth on the Faster business, the 16%, is well above the long-term CAGR that you gave us of 10%. Could you perhaps just expand a little bit on the drivers of that, and how you expect them to play out through 2018, and also beyond? Thank you.

Wolfgang H. Dangel: Sure, Blaine. Very good question. I think the main reason and the single answer to that is the Ag market has been in a downturn for a number of years and has recovered in 2017 for the first time, so we're seeing accelerated growth there. But, it's probably the only end market, I would say, where we see double digit market growth, and that's the main reason why we are coming in and guiding at probably 16% to 16.5% revenue growth for Faster Group. I would say the Ag market is probably expected to grow 10%, but they are destined to take market share there as well. It's purely due to the slumpy Ag market we have been seeing over the last three to four years. Now, we're seeing an accelerated growth phase. Did I answer your question, Blaine?

Blaine Marder: Yes, thanks.

Operator: Thank you. At this time, I would like to turn the call back over to Wolfgang Dangel for closing comments.

Wolfgang H. Dangel: Thank you. Thanks again for your participation this morning, and thank you to all of the hardworking Sun employees who are driving these results. We are looking forward to updating all of you when we close on the acquisition of Faster in the second quarter, and then again with our first quarter results in May. Thank you very much and have a great day.

Operator: This does conclude today's teleconference. You may disconnect your lines this time and thank you for your participation.